AIR ACADEMY
FEDERAL CREDIT UNION

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March 9, 2010

Delivered via email: regcomments@ncua.gov

Ms. Mary Rupp
Secretary of the Board
National Credit Union Association
1775 Duke St
Alexandria, Virginia 22314-3428

Re – Proposed Regulation 12 CFR Part 704

Dear Ms. Rupp:

I'd like to start by thanking you for the opportunity to comment on this important proposal. The corporate credit union system has been an integral part of how we provide service to our membership and this proposal will impact our member service in the future.

Air Academy Federal Credit Union has over 42,000 members and $425 million in assets. We were originally chartered to serve the United States Air Force Academy in 1955. However, our field of membership has grown to include active duty and retired military individuals from all branches of service along with the students and families in 10 local school districts and over 100 select employee groups.

Recent economic events have exposed flaws in a number of financial institutions, including corporate and natural person credit unions. While I agree an overhaul and reform of the corporate credit union system is necessary, I don't believe the current proposed regulation is the solution. While there are a number of excellent ideas proposed, I believe two of the shortcomings are severe enough to warrant a revision and another period of public comment. I believe the ANPR is inadequate in the following areas:

1. Treatment of "legacy assets"
2. Focus on interest rate risk at the expense of credit risk

Legacy assets held by corporates – primarily private label asset backed securities – were initially estimated to cost the corporate stabilization fund between $1 billion and $11 billion. NCUA has since revised this loss estimate to somewhere between $4 billion and $6 billion. This could represent significant savings from the $6 billion loss currently earmarked. However, there are two issues of concern regarding these assets which aren't specifically addressed in the proposed regulation.

1. Can former corporate capital holders, whose capital has been depleted, have their capital restored in the future if the ultimate losses on the legacy assets are less than expected?
2. Will new capital deposited be at risk if losses are worse than expected on the legacy assets?

Issue 1 - GAAP does not require the permanent depletion of corporate capital. NCUA was the one who first mandated the permanent depletion in Letter to Credit Unions 09-CU-10; "PIC and MCA are at-risk capital reserves and because they are so designated, a corporate has no legal obligation or authorization as a going concern to restore, replenish or recoup depleted PIC and MCA out of future retained earnings, even if retained earnings substantially improve." This seems counter-intuitive given NCUA's treatment of the NCUSIF impairment in 2009. NCUA was granted authority to borrow funds from the Treasury to help stabilize US Central and WesCorp. Once the borrowing authority was granted, we were all given an "earnings recovery" to help compensate for our impaired NCUSIF deposit. The deposit impairment wasn't reversed; we were just given an offset via income. Why wouldn't the same logic be applied to our PIC and MCA at the corporates? Is NCUA planning an additional assessment on the corporates for the losses incurred to the share insurance fund, similar to the proposed fee on banks who received TARP funds? Do they have other plans for any funds available from lower than anticipated losses? What if a model was created facilitating the ability for credit unions to recapture depleted capital? Corporates could segregate and measure the performance of previously impaired legacy assets from all their other assets. Future recoveries in value could be available to return to the original capital holders in the form of a "paid in kind" PIC dividend. Once a corporate met all applicable regulatory mandates, their board could determine that any portion of the paid in kind PIC balance be redeemed in cash. The corporate credit union would thus possess the right, but not the obligation, to pay recovery dividends.

Issue 2 - In a recent Dallas town hall meeting, NCUA indicated natural credit union participation is, "crucial to an ongoing (corporate) system". This participation is the recapitalization of the corporate system. Would any natural person credit unions invest additional capital into an institution knowing what we know today about their balance sheets? I would want to know my new capital was invested to benefit the future operations of the corporate, not simply to provide an additional buffer against any prior losses. In my opinion, all the other proposed regulatory changes are useless unless NCUA first addresses a capital protection plan. In this same meeting, NCUA stated it was "working around the clock" and in conjunction with the US Treasury Department on this issue. Until this additional work is completed and we have guidance on how our newly invested capital will or won't be affected by the legacy assets, I think any changes to the current system must be postponed.

I also believe the proposed regulation focus too intensely on mitigating interest rate risk at the expense of credit risk. The proposal handcuffs the corporates' ability to take interest rate risk so much that the only way for them to earn sufficient margins to meet the retained earnings requirements is to take unacceptable levels of credit risk. The agency's approach is surprising given the recent problems in the corporate network were primarily the product of credit risk and not of interest rate risk. For example, the proposed rule limits the weighted-average life of assets to two years (and potentially less given the proposed AL NEV tests) and this is too restrictive. Yes, it helps ensure the corporates will not take on excessive interest rate risk, but the rule pressures corporates to take on undue credit risk to meet the earnings requirements. I would change the proposed regulation to have the two-year average life rule apply only to non-GSE investments. NCUA should instead prohibit all investments in subordinated tranches of privately-issued mortgage securities. If the corporates took advantage of the proposed rule and held these securities at a level equal to 100 percent of their capital, they would still be exposing their capital to too much risk of catastrophic loss. Again, I believe the focus on risk is misplaced in this area of the proposal.

I know I have only scratched the surface regarding the issues and solutions raised in the ANPR. However, I feel the two issues discussed above are of great enough importance to rewrite the proposal and allow another period of public comment.

I hope you'll agree our corporate credit union system is a vital and important part of the overall credit union system. As such, we need to take enough time address and discuss all the relevant facts so we can find a solution acceptable to the NCUA, the corporate credit union system and the natural person credit unions. Our system already demands this from all parties – cooperation. We need to keep that guiding principle in mind as we all work together to reshape they way we provide service to our members.

Thank you again for the opportunity to comment on this proposal.

Sincerely;

Brad R. Barnes, CPA
Vice President and Chief Financial Officer
Air Academy Federal Credit Union